VZCZCXRO9300
RR RUEHDU RUEHJO RUEHMR RUEHRN
DE RUEHSA #3295/01 2260508
ZNR UUUUU ZZH
R 140508Z AUG 06
FM AMEMBASSY PRETORIA
TO RUEHC/SECSTATE WASHDC 5047
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUCPCIM/CIMS NTDB WASHDC
RUCPDC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 04 PRETORIA 003295

SIPDIS

SIPDIS

DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND
TREASURY FOR OAISA/RALYEA/CUSHMAN
USTR FOR COLEMAN

E.O. 12958: N/A
TAGS: ECON EINV EFIN ETRD BEXP KTDB PGOV SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER AUGUST 11, 2006 ISSUE

¶1. (U) Summary. Once every two weeks, Embassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- Reserve Bank raises interest rates 50 basis points
- Reserve Bank accumulates reserves in July
- Manufacturing expands to record levels in July
- Housing-price growth slows, may decline soon
- Vehicles sales-growth slows
- Government releases draft strategy for metals sector
- EC, Standard Bank to assist SA small businesses
- Government commits R3 billion for public transport
- Mbeki criticizes departments for capacity issues
- Cabinet rejects proposed industrial policy
- Trade deficit shrinks
- Lebanon crisis diverts shipping toward Cape, but fuel supply may not be adequate
- Bureau for Economic Research predicts 4% growth for SA
- Foot-and-mouth outbreak near Kruger Park
- New Durban airport to be finished by 2010

End Summary.

Reserve Bank raises interest rates 50 basis points
-- ----

¶2. (U) The South African Reserve Bank raised its key repo rate by .5% to 8% on August 3. The prime lending rate rose to 11.5% (the US prime lending rate is presently 5.25%). Markets anticipated the increase, which is intended to strengthen the rand and cut inflation after recent increases in Consumer Price Index, Producer Price Index, non-farm labor costs, and oil prices. Reserve Bank Governor Tito Mbeweni also stated that CPIX (CPI excluding mortgage costs) inflation is likely to break the government's 3-6% target range for the first two quarters of 2007. Most economists expect further interest rate increases through the rest of 2006. Sources: Fin24, Engineering News, August 3.

Reserve Bank accumulates reserves in July

¶3. (U) The SARB resumed its long-term accumulation of gold and foreign exchange reserves in July. Gross reserves rose from $23.95 billion in June to $24.16 billion by the end of July, a relatively modest gain compared to an average monthly accumulation of $479 million since the beginning of 2006 and $453 million average in
¶2005. A stronger rand in late July allowed South Africa to accumulate foreign exchange at favorable prices, reversing June's small decline in reserves and bringing total Forex reserves to $21.6 billion. As gold prices rose 5% during July, the value of South

Africa's rose to $2.5 billion. Sources: Reuters, August 7; Business Day: August 8.

Manufacturing expands to record levels in July
--- -

¶4. (U) Investec's Purchasing Managers' Intex (PMI) grew robustly from June's 59.8 to hit a record high 63.2 for the month of July. Index results higher than 50 indicate expansion in manufacturing output. Stats SA released further data on August 8 showing that manufacturing grew 6.1% year-on-year in June and 1.7% in June alone. Manufacturing contributes 16% to South Africa's GDP. The rand dropped dramatically in value against the dollar in the first half of 2006, losing 10% of its value and making South African exports relatively less expensive. Strong domestic consumption also played a major role. Sources: Business Day, August 2, 8.

Housing-price growth slows, may decline soon

¶5. (U) Residential property prices in South Africa continued to expand in July, according to reports by Standard Bank and Absa; however, the rate of growth has declined over the last several months and may fall in real terms over the next several months. Absa's August 3 report indicates that prices of residential properties grew only .1% in real terms (.8% nominally) in June 2006. Nominal growth was .6% in July; real growth figures are not yet available. Analysts with both Standard Bank and Absa expected the housing slowdown to continue due to rising interest rates and rising consumer debt. Sources: Business Day, August 2; iAfrica, Fin24, August 3.

Vehicles sales-growth slows

PRETORIA 00003295 002 OF 004

¶6. (U) July data released by the National Association of Automobile Manufacturers (NAAMSA) showed a mixed month for the country's vehicle sector. Although vehicle sales were 20.8% above figures from July 2005, keeping car dealers on pace for a record year, sales dropped slightly (.7%) compared to the previous month. NAAMSA hailed the result as a sign of strength in the face of interest rate hikes, though a major part of the sales were driven by preemptive buying by businesses ahead of expected future rate increases. It also stated that it expects sales to slowly decline through the rest of 2006, as higher gas prices and interest rates sap interest in vehicle purchases. Exports for the first six months of 2006 rose 55.6% over the same period in 2005, from 51,832 to 80,651 units. Sources: Reuters, iAfrica, August 2.

Government releases draft strategy for metals sector
--- -------

¶7. (U) The Department of Trade and Industry released a draft strategy for the development of South Africa's metals sector on August 1, the latest in a series of sector plans formulated through the Accelerated and Shared Growth Initiative for SA (Asgisa) plan for national economic development. The R172 million ($25 million) plan, which the DTI claims could bring 45,000 jobs to South Africa, aims to increase the production of finished metal goods in South Africa, a stage of production that includes the largest share of value-added and employment benefits for the producing nation. The plan promises government intervention to slow the export of scrap metal and to raise procurement quotas of locally-made products by 20%. The strategy is presently published on the DTI website for public comment through August 31. Sources: Business Day, DTI, August 2.

EC, Standard Bank to assist SA small businesses
--- --

¶8. (U) The European Commission (EC) joined Standard Bank and KwaZulu-Natal's provincial Department of Economic Development in a memorandum of underst5anding to increase financial support for entrepreneurs in the province. The project would fight poverty in

the province by allowing small-scale loans for development projects such as farms and tourism development. The details of the agreement are still under discussion, but a spokesman for Standard Bank indicated that the bank could fund up to 70% of approved applications, with the EC covering the remaining 30%; however, the bank hoped to reform the terms so that entrepreneurs would assume some of the risk. Source: Business Day, August 2.

Government commits R3 billion for public transport
-- -----

¶9. (U) As part of its program to improve public transportation prior to the 2010 Soccer World Cup, South Africa's government announced on July 30 that it would allocate R3 billion ($436 million) more to upgrade and expand passenger rail and road networks. The national government has allocated R11.5 billion ($1.67 billion) to World Cup-related projects, R8 billion ($1.16 billion) on projects related to transportation. Sources: Business Day, IOL, July 31.

Mbeki criticizes departments for capacity issues
-- ----

¶10. (U) President Thabo Mbeki expressed dissatisfaction with the Department of Public Works (DPW) on July 30, pledging to turn the department from a "coordinator" into a "driver" for the Extended Public Works Programme (EPWP). The EPWP is a four-year, R400 billion ($58 billion) project within the DPW's purview, though the funds are allocated directly to local and regional governments. The drive to revitalize Public Works is the latest in a series of initiatives to improve state capacity to carry out South Africa's Accelerated and Shared Growth Initiative for SA (Asgisa) development strategy. Mbeki also declared that the Department of Trade and Industry (DTI) needed to fill key positions more quickly, saying that personnel issues are negatively impacting the capabilities of the DTI. Roughly 25% of DTI positions are presently vacant, reflecting South Africa's skills shortage and low salaries in the department relative to the private sector. In order to fill positions requiring scarce skills, Mbeki stated that the government would seek to recruit South Africans abroad and allow easier immigration for other skilled workers. DTI Minister Mandisi Mpahlwa has pledged to fill key positions by the end of 2006. Sources: Business Day, BuaNews, July 31; Financial Mail, August 4.

Cabinet rejects proposed industrial policy

¶11. (U) Following the end of its July meeting, the cabinet sent the Department of Trade and Industry's (DTI) Regional Industrial Development Strategy (RIDS) back to the department for reworking. According to DTI director-general Tshediso Matona, the plan requires clarification on several parts of its program to identify and strengthen sectors with good potential for job creation as well as the manner in which RIDS will interact with other government development programs. A team of Harvard economists advising the SA government on its Asgisa (Accelerated and Shared Growth Initiative) development plan told government officials days before the meeting that SA must develop a strong industrial export strategy if it is to reach its growth targets of 6% annually. Source: Business Day, August 1; Business Day, August 8.

Trade deficit shrinks

¶12. (U) South Africa's trade deficit was R4.2 billion ($610 million) in June, according to a July 31 report by the South African Revenue Service, a considerable decrease from May's R7 billion ($1 billion) gap. A Reuters poll in late July, however, revealed that economists expected only a R2.4 billion ($350 million) deficit. Import growth slowed almost 25% and the value of exports rose 15.8% in June, thanks to the cheaper rand, accounting for much of the decline in the current account deficit. International investment authority JP Morgan released a report on July 31 discounting fears about the effects of South Africa's current account deficit on its viability as an investment destination. Although South African stocks have

lost value in 2006, JP Morgan expressed confidence in the country's fundamentally sound economic policy. Sources: MoneyWeb Business, Business Day, August 1.

Lebanon crisis diverts shipping toward Cape, but fuel supply may not be adequate
--- ---

¶13. (U) Continuing unrest in the Middle East is spurring several shipping companies to divert their vessels away from the Suez Canal, increasing ship traffic around the Cape of Good Hope. A spokesman for Cape Town Port Control stated on August 9 that more ships are using Table Bay and that Port Control expects the trend to accelerate until the Lebanon crisis is resolved. South Africa is struggling to meet its liquid fuel needs, however, as two refineries are presently shut down for maintenance and domestic fuel supply is already under stress. Both refineries will come back on-line in September, but some ships have already been diverted to other ports because of a shortage of bunker fuel in South Africa, much to the frustration of the country's ports and shipping agents. Source: Cape Argus, August 10.

Bureau for Economic Research predicts 4% growth for SA
--- -----

¶14. (U) The Bureau for Economic Research (BER), an independent research group working from Stellenbosch University, forecasts strong economic growth for South Africa in the short term in its August 10 report. The BER foresees a 4.3% GDP growth rate in 2006 and 4.1% in 2007, a small decline from the BER's previous predictions (4.5% in 2006 and 4.2% in 2007) and a substantial decline from 2005's 4.9% growth rate. Although it anticipated a deceleration in consumer spending and a weaker rand, the BER stressed that South Africa's economic fundamentals are sound. Domestic infrastructure spending and increased exports will largely offset the effects of slower growth in consumer spending. Sources: iAfrica, SABC, Reuters, August 10; Business Day, August 11.

Foot-and-mouth outbreak near Kruger Park

¶15. (U) The Agriculture Department announced on August 9 that cattle in Limpopo have been diagnosed with foot-and-mouth disease, a highly contagious livestock disease. South Africa's herds are certified as free of the disease and will remain so, for the present, as the outbreak occurred in a controlled buffer-zone surrounding Kruger National Park. Unless the disease spreads outside of the area, South African meats will be freely exported. Game parks are high-risk areas due to their wild populations of many animals that can carry foot-and-mouth; in this case, cattle contracted the disease from water buffalo. The government plans to deal with the outbreak using strict movement controls and vaccination. Source: Business Day, BuaNews, Mail & Guardian, August 10.

New Durban airport to be finished by 2010

¶16. (U) Transport Minister Jeff Radebe announced on August 10 that Durban International Airport will be replaced by a new facility at La Mercy, 30km north of the city, in the first quarter of 2010. Previously, the government had anticipated that the airport, to be named King Shaka International, would be finished in 2012; however, Radebe stated that the Airports Company of South Africa (Acsa) will accelerate the R2.5 billion ($370 million) project to be finished in time for the 2010 World Cup. Durban is one of the host cities for that event, necessitating major improvements and expansions for its transportation system. Furthermore, Asca projects that passenger transit through Durban's airport will increase by 14% annually through 2012 and that judicious integration with the nearby seaport and agricultural shipping zone could spur economic growth throughout KwaZulu-Natal province. Sources: Reuters, August 10; Business Day, August 11.

BOST